

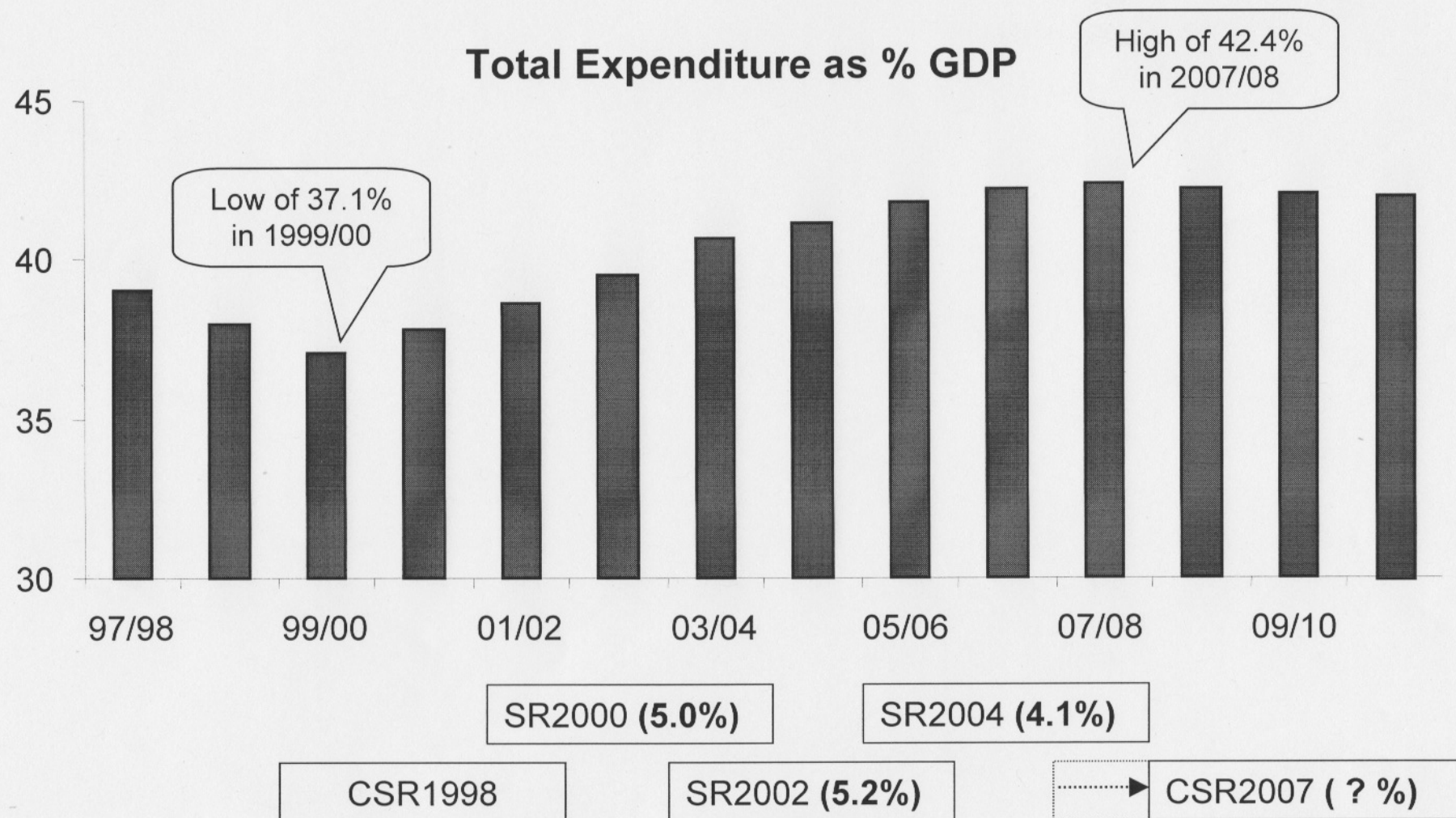


The Spending Review process 2006-2007

January 2006

CONFIDENTIAL

PBR says spending as % of GDP flattens off in SR2007



Four challenges for the Cabinet

1. **Spending growth will slow** in SR2007 compared with previous SRs: HMT say “flat real” will be the rule rather than the exception. *Cabinet needs to believe not that these numbers should go up, but that it’s acceptable for them to be this low.*
2. **Reform must be delivered and extended** but resources can now only come from closing down lower priority or ineffective spending. *Without this, flat real will pay only for ‘day to day’ spending*
3. **Public sector productivity** needs to start improving more rapidly: “we’ve spent all this money, but what have we got for it?”
4. **Changing political landscape:** will “investment v cuts” be the dividing line in future? Or “quantity of inputs vs quality of outputs”?

Some examples of savings we have found

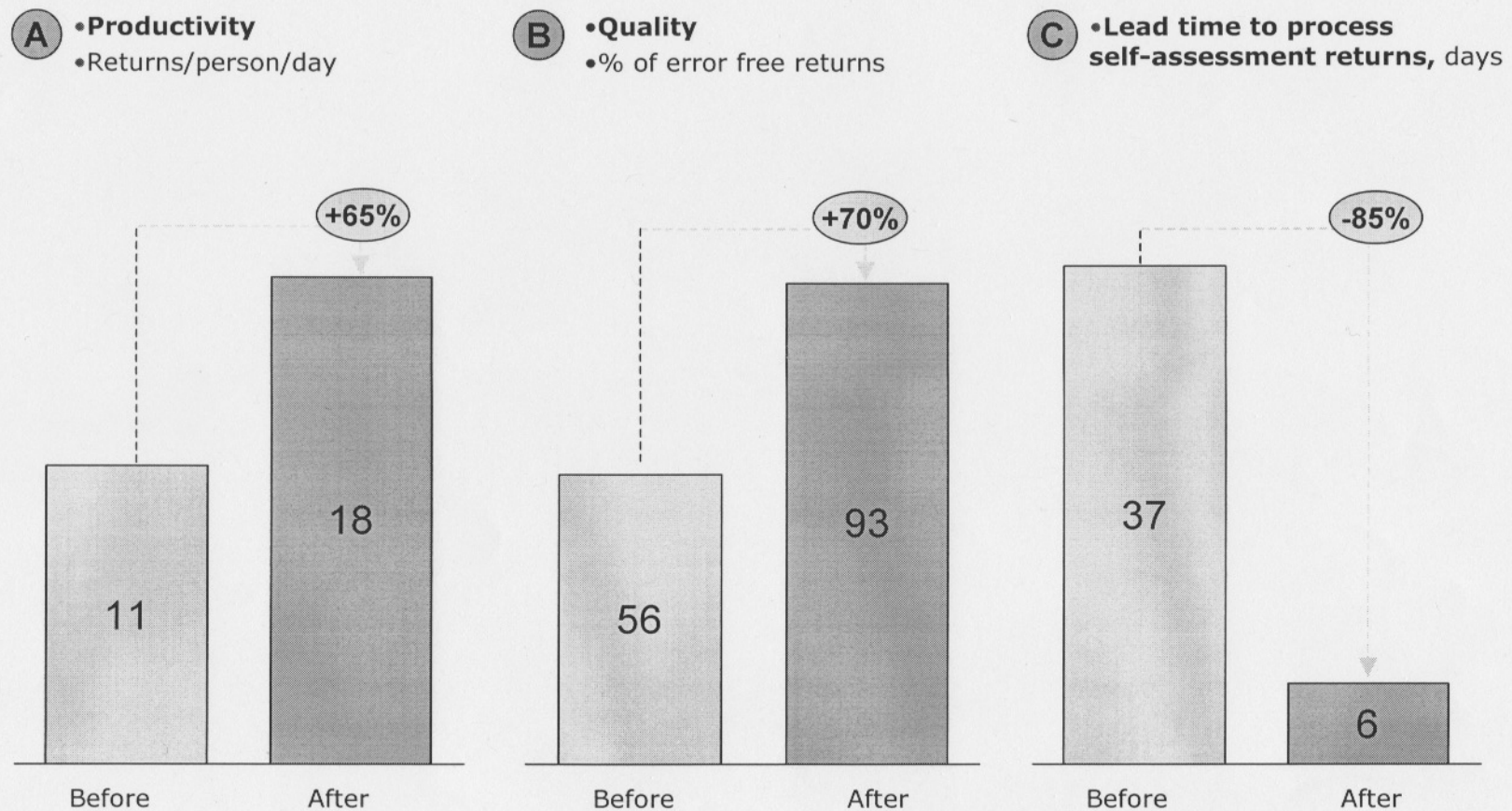
- Registering for child benefit requires the completion of 55 questions spread across a 15 page form to claim for a child born in an NHS hospital and whose birth has already been registered.
- Only 20% of Jobcentre Plus staff work in contact with the customer.
- It costs 50% more to take a Jobseeker's Allowance claim in the South East than in the South West.
- There are more than 1300 organisations in the public sector responsible for HR and finance services.
- DWP are taking the 'opportunity' to centralise delivery of pensioner benefits from 28 Pension Centres to around 20 - rather than 1.
- The cost of fire control rooms handling a fire incident differs widely between fire authorities, from £18 and £168 per incident.
- DWP pays 97% of its benefit claimants electronically, direct to their bank accounts. Saves £1bn over 5 years. But National Savings posts over 1m cheques every month to its customers, despite the fact that its customers are more likely to have bank accounts.
- DCMS spends £43m on its 11 websites, one of which attracted just 77 visitors in 2004-05.

Potential savings: three types

Type of spending	How to generate savings	Specific solutions
1. Inefficient	Improve the use of inputs that go into producing a given output, holding outcomes constant	<ul style="list-style-type: none">• Process reengineering: major one-off transformation• Reduce variation in performance among multiple providers to tackle "postcode lotteries"
2. Ineffective	Switch to a more cost effective programme, holding outcomes constant	<ul style="list-style-type: none">• Rationalisation: remove overlapping spend by moving to the most cost effective output and stopping ineffective programmes• Policy redesign: create a new policy which offers better vfm to replace existing interventions
3. Low priority	Reduce outputs and allow outcomes to change	<ul style="list-style-type: none">• Stop doing: cut back on low priority programmes and dispose of assets• Stop subsidising: introduce charging to replace current subsidies

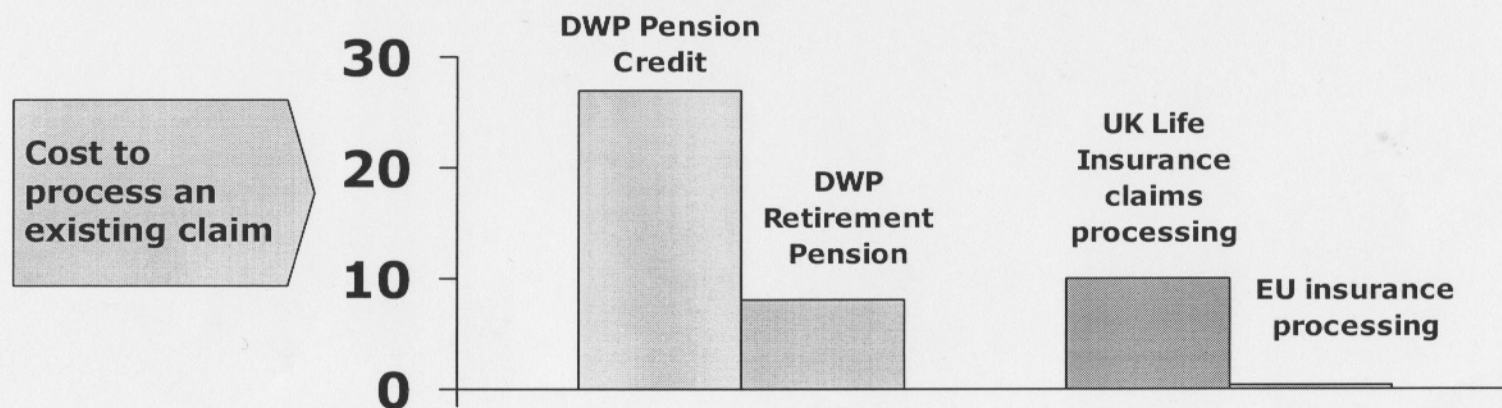
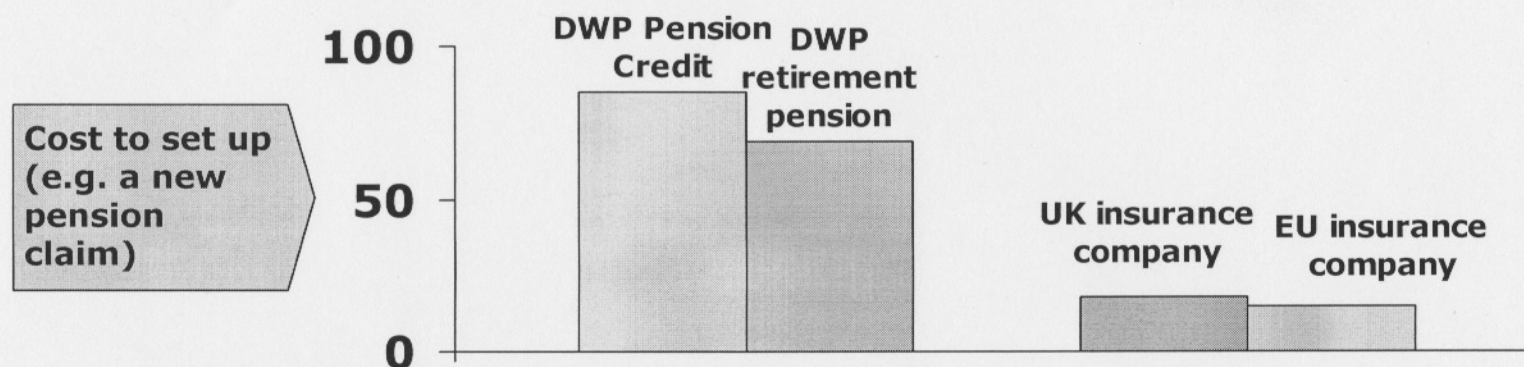
1. Inefficiency - *process re-engineering*

HMRC process reengineering pilots driven by new leadership produce efficiency gains of 60% to 80% in tax return processing – and a better service for the customer



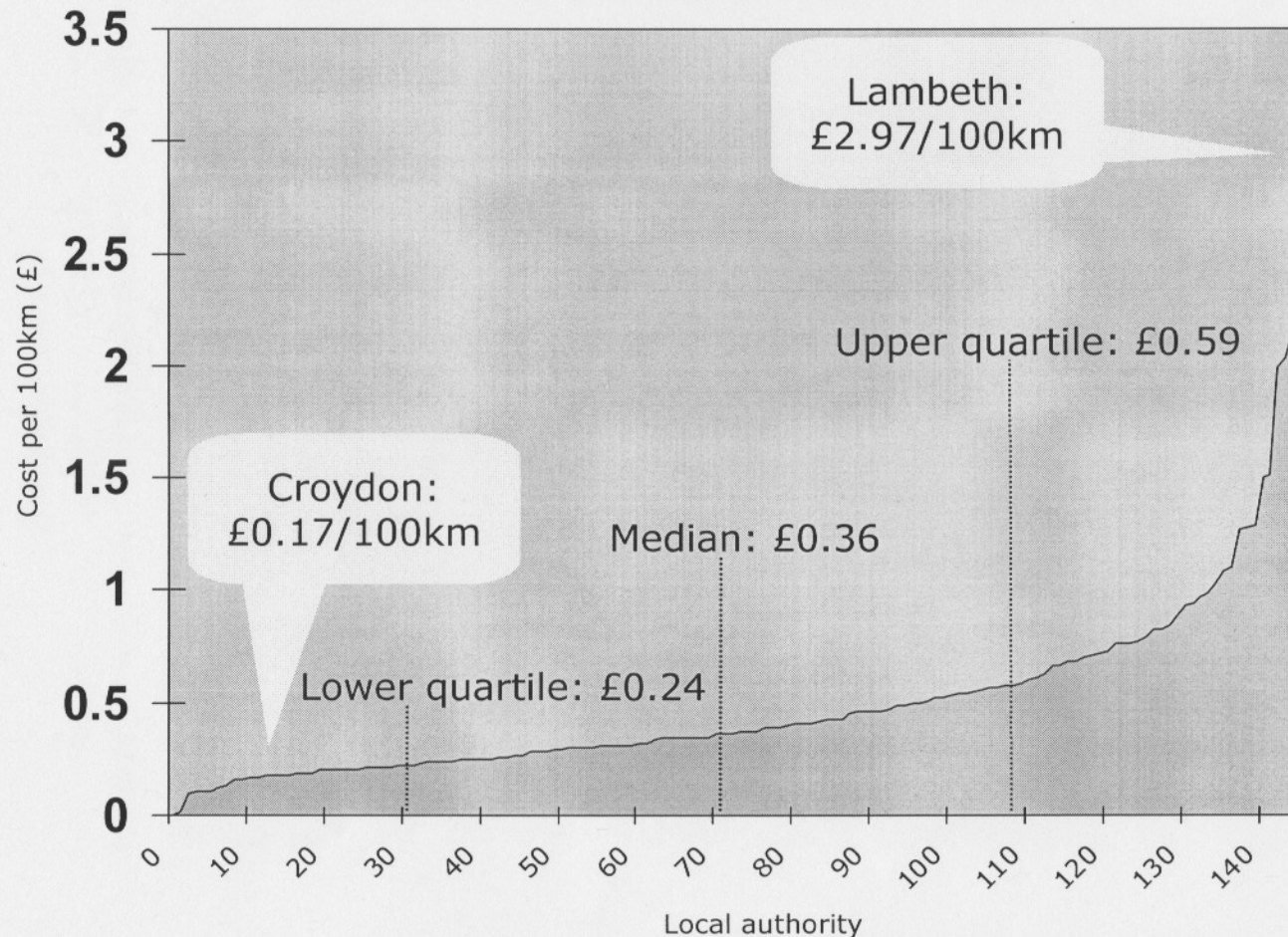
1. Inefficiency - *process re-engineering*

£ / claim direct cost (not including organisational overheads)



1. Inefficiency - *performance variations*

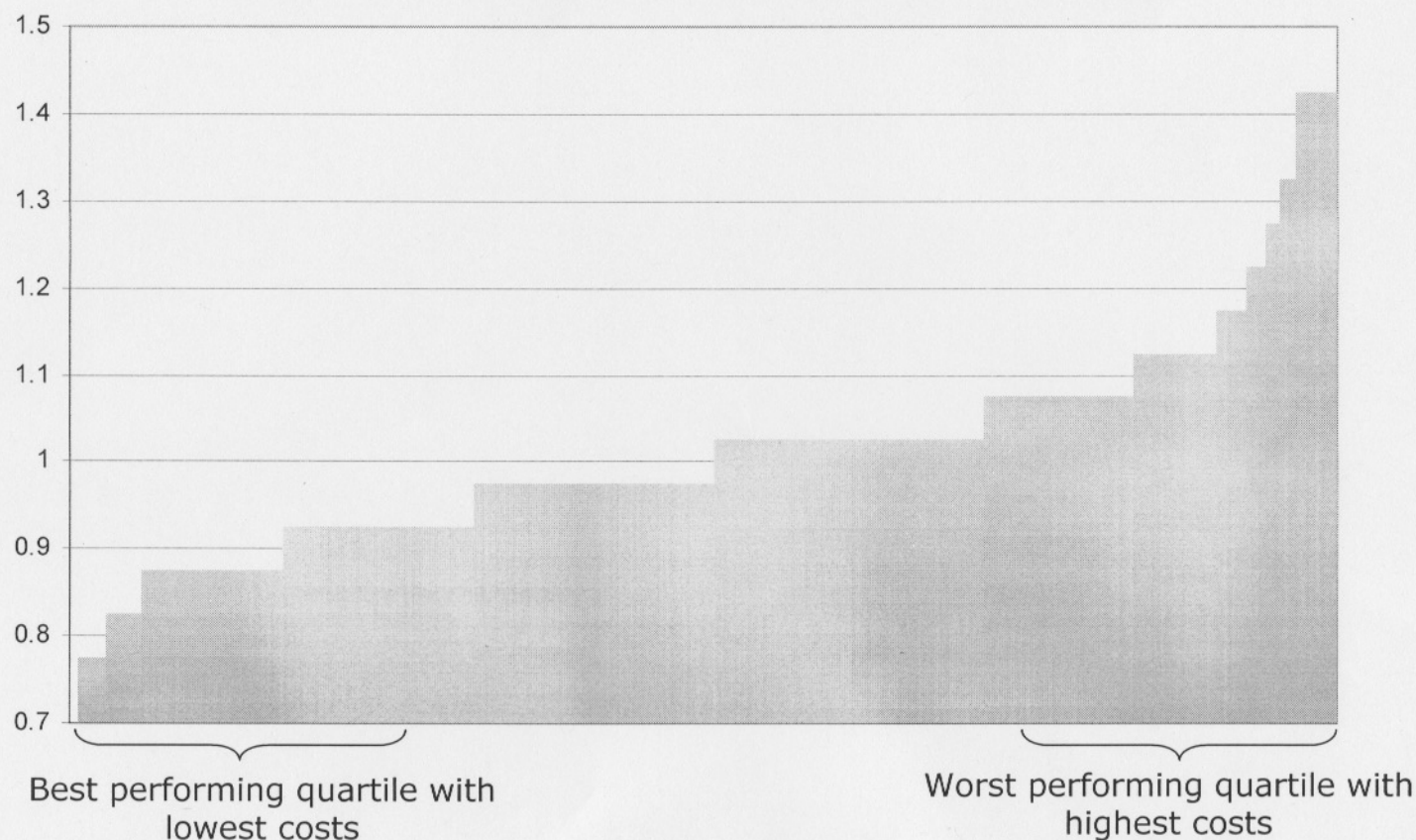
Individual local authority expenditure on road maintenance (cost per 100km), 2000/01



- The lower quartile is 64% less efficient than the median
- Local Authorities' spend £2.5bn on road maintenance expenditure
- There is huge potential scope for savings even when similar authorities are compared
- Looking at performance variations helps us to tackle "postcode lotteries"

1. Inefficiency - *performance variations*

NHS Trust Average Costs 2003/04 (indexed)

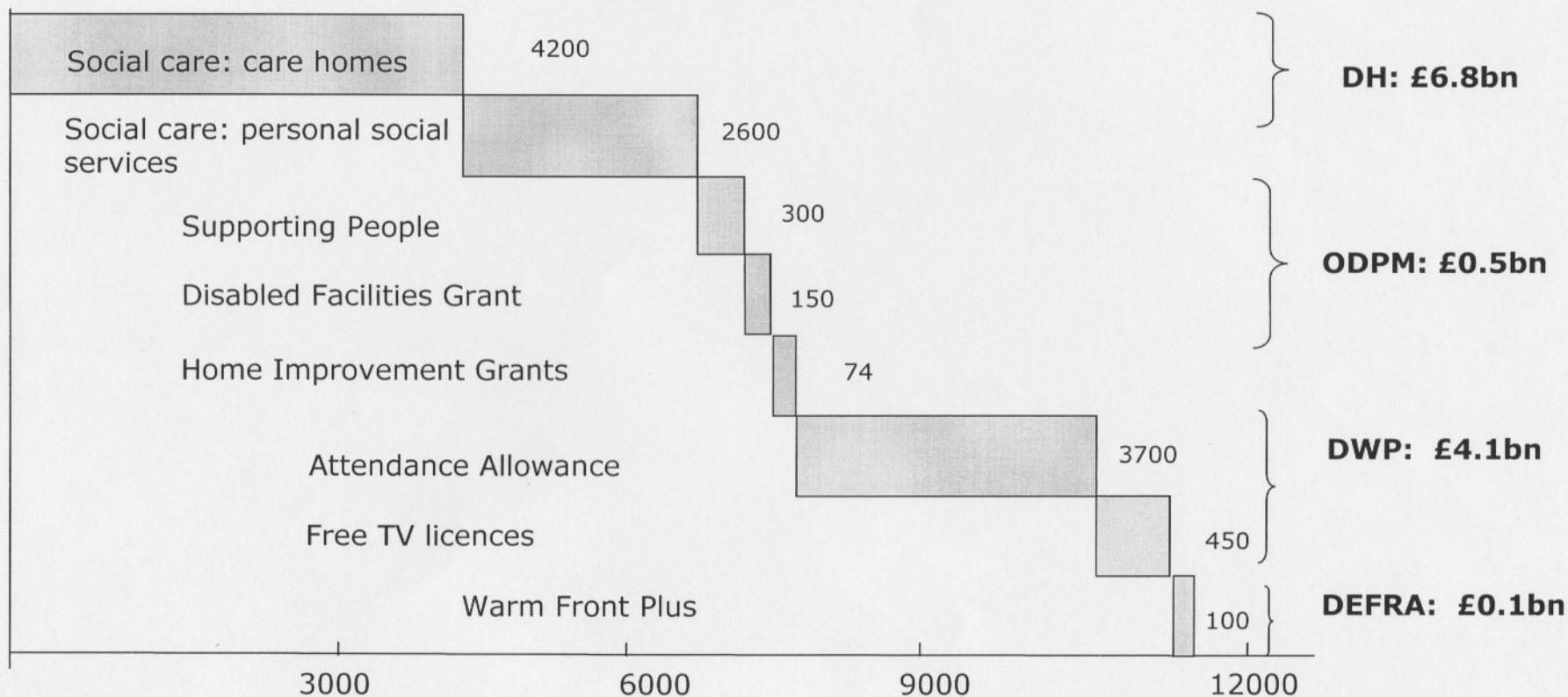


- Worst performing NHS Trust performance require up to a 32% increase in performance to bring them up to the current median performance

2. Ineffectiveness - *rationalising overlaps*

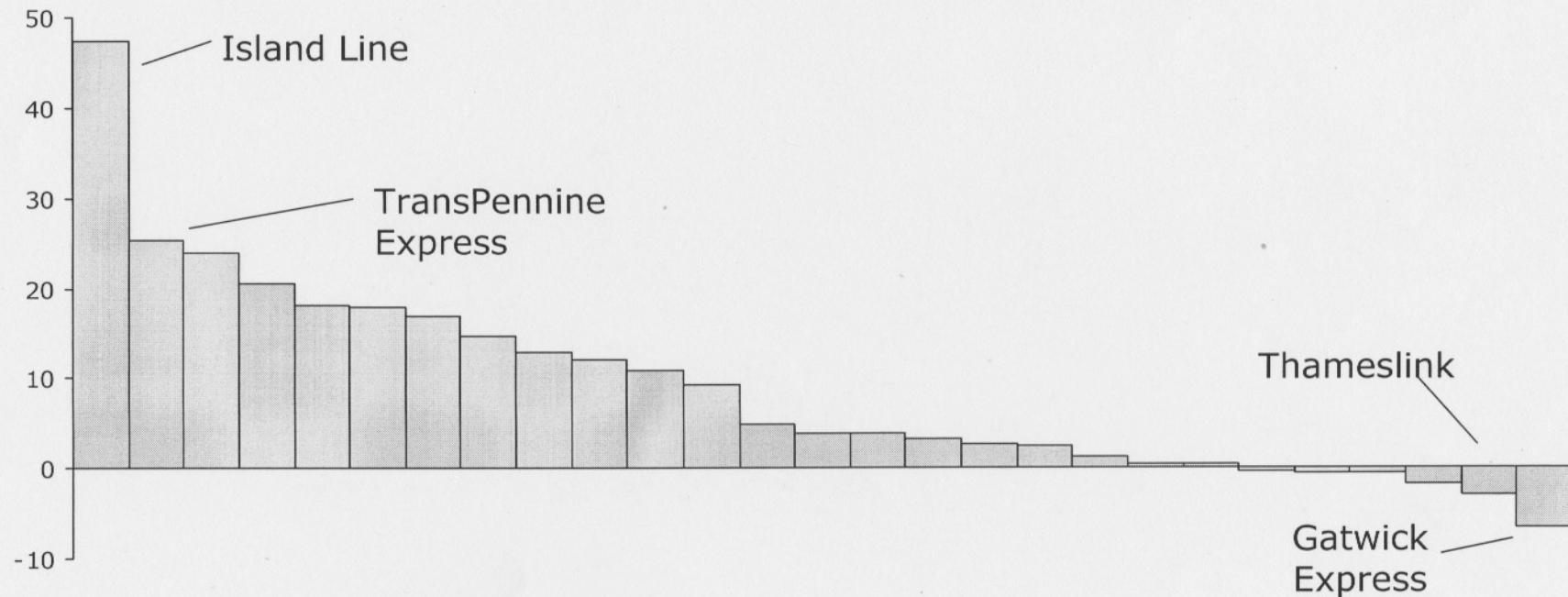
Selected spending on older people: the effectiveness and value of these programmes in delivering PSA targets is likely to vary. Refocusing could deliver the same results at less cost

**£ million expenditure by programme, 2004/05
figures where available**



2. Ineffectiveness - *policy redesign*

Rail Subsidy 2003-04
(pence per passenger kilometre)



- Within rail spending, 80% of total subsidy (£800m pa) goes to regional railways
- Not clear this is best way to deliver government priority of supporting economic development
- **Expanding bus services** might provide a more cost-effective solution

2. Ineffectiveness - *policy redesign*

Savings opportunity		Evidence of savings potential
DfT	Re-design the system of bus subsidies	Total central support for buses is ca. £1bn. The main bus subsidies are currently paid on a mileage basis, which distorts bus companies' incentives by encouraging them to run buses at low capacity
DWP	Review policy on CSA operations	Evidence of failure to achieve objectives e.g. CSA is very inefficient at collecting amounts owed. Despite differences in the nature of the two systems, Australia has a cost / collection ratio of 1:8 that is 4x more efficient than the CSA (1:2)
HO	Summary justice	More cases could be diverted prior to court by extending powers and increased use of financial penalties.
DH	Prevention strategies	Smoking cessation programmes deliver around ten-fold more Quality-Adjusted Life Years than expenditure on drugs to reduce cholesterol. US alcohol hard reduction strategies have a benefit:cost ratio of 5:1.
General	Local and regional pay	Public sector can procure labour at much lower cost outside the South East for services which don't need to be located in the South East. But the Government can point to few examples of regional or local pay.

3. Low priority – *stop doing*

Some programmes look like low or 'legacy' priority compared to the Government's current objectives.

Savings opportunity		Evidence of savings potential
DTI	Business support	DTI have failed to exit legacy business support schemes at the originally intended pace. Could slim down SBS to focus on core objectives.
DfES	Better target FE subsidies to reduce deadweight	Review the appropriateness of FE subsidies, e.g. recent report by the IFS suggesting that 85%-90% of Employer Training Pilot participating employers are deadweight.
ODPM	Refocus decent homes programme	Pursuing a 100% decent homes target may not represent value for money. ODPM has publicly conceded PSA target will not be met on time and are examining alternative uses for the spending (eg "liveability")
DfES	Children's Centres	We have promised a Children's Centre in every community, but the need for children's services varies greatly between areas. Reduce funding for least deprived areas and consider alternative delivery models.
DH	Clinical effectiveness	Extend NICE role to the decommissioning of ineffective 'legacy' treatments to remove costly variations in clinical practice.
MoD	Scope to go further on sale of estate	Defence Estate = 1% of UK landmass, includes high value sites in London and South East. Value of land and buildings is £18bn with £1.3bn p.a. maintenance costs. MoD have disposed of sites worth £1.2bn since 1998. SR04 rationalisation targets are being met comfortably. Lyons review of assets suggests significant opportunities to go beyond the 07/08 target of £500m of sales.

The process we could agree with HMT and Cabinet

